



July 17, 2015

Via Hand Delivery and Email

Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: Docket No. 7970 Quarterly Cost Estimate

Dear Mrs. Hudson:

On behalf of Vermont Gas Systems, Inc., this submission provides the Quarterly Cost Estimate Update (the "Update") for Phase 1 (Docket No. 7970) of the Addison Rutland Natural Gas Project (the "Project").

We are pleased to report that the Project is on schedule and on-budget. The Company's overall cost estimate for Phase 1 remains at \$153.6 million and progress has been made in several key areas including:

- The pipeline contractor has been selected and we are in the process of finalizing the contract.
- Right-of-way acquisition, including the required conservation easement for construction in the sandplain, now stands at 93%.
- Contracts have been executed for pipeline construction inspection services and construction technical support.
- Significant progress has been made on the construction of the three measurement and regulation stations.
- Construction-readiness activities have been completed to allow the pipeline contractor to begin construction and complete at least the first eleven miles by fall.

The attached Update contains the most recent assessment of the current forecast as well as a summary of the costs incurred to-date through June 30, 2015. For ease of reference, the Update also contains the Company's forecast of total costs as of the prior cost update filing in April, 2015. Consistent with the Company's commitment to monitor project costs, the various cost categories have been reviewed and adjusted to reflect current expectations. As would be expected, certain cost categories have increased while others have decreased since the last update filed in April. Key changes are described below.

- Decreased costs are anticipated in construction associated with blasting and tree clearing.
- Increased costs are anticipated in the environmental category associated with additional environmental field inspectors.

- While project management costs show a decrease, this is related to a reallocation of certain expenses to the construction category.
- The overhead category has increased to reflect AFUDC consistent with an October 2016 in-service date.

The Update also provides Project costs incurred to-date, including accruals, through June 30, 2015. The net change in cost incurred to-date since the last quarterly report is \$5.1 million consistent with the Project budget and schedule. Key activity areas included right of way acquisition, permitting and regulatory work, preconstruction planning and readiness, on-going construction work, on-going project management and multiple contract negotiations.¹

Please note that the Update reflects Vermont Gas' best current estimate of overall Project costs and assumes that the Project will be completed by late 2016. In order for this to occur, Vermont Gas will require access to all properties, including those where right of way agreements have not yet been reached, to allow efficient construction beginning in spring, 2016. While Vermont Gas has made great progress in reaching right-of-way agreements with landowners, it is likely that some level of eminent domain filings will be required as a last resort. We currently estimate that we will need to make fewer than a dozen such filings.

We certify that we have by first-class mail served two copies of this filing on the Public Service Department and one copy to each other party on the service list. We have also provided a copy of this mailing to each of the parties by electronic transmittal.

Sincerely,



Eileen Simollardes
Vice President - Regulatory Affairs

cc: Docket 7970 Service List

¹ The construction category shows a decrease in costs incurred to date due to the reversal of an amount previously accrued.



July 2015 Phase 1 Quarterly Cost Estimate Update

Activity	Budget Baseline (A)	Prior Forecast (B)	Forecast Adjustments (C) = (D-B)	Current Forecast (D)	Project Cost Incurred through 6/30/15
Project Management	\$ 7,245,606	\$ 11,895,606	\$ (226,317)	\$ 11,669,289	\$ 9,988,098
Engineering and Design	\$ 4,019,136	\$ 4,019,136	\$ 22,645	\$ 4,041,781	\$ 3,699,093
Permitting	\$ 4,577,123	\$ 4,577,123	\$ (73,794)	\$ 4,503,329	\$ 3,918,731
Environmental	\$ 2,025,640	\$ 1,715,640	\$ 190,951	\$ 1,906,591	\$ 1,637,130
Procurement	\$ 16,265,381	\$ 14,565,381	\$ (65,381)	\$ 14,500,000	\$ 11,451,040
Right of Way	\$ 12,203,771	\$ 11,463,771	\$ -	\$ 11,463,771	\$ 9,621,294
Construction	\$ 76,417,509	\$ 75,367,509	\$ (940,110)	\$ 74,427,399	\$ 19,073,707
Overhead	\$ 15,640,000	\$ 15,640,000	\$ 1,071,906	\$ 16,711,906	\$ 7,153,386
Project Forecast	\$ 138,394,166	\$ 139,244,166	\$ (20,100)	\$ 139,224,066	n/a
Contingency	\$ 15,216,167	\$ 14,366,167	\$ 20,100	\$ 14,386,267	n/a
Total With Contingency	\$ 153,610,333	\$ 153,610,333	\$ -	\$ 153,610,333	\$ 66,542,479

Prior Forecast: Reflects forecast as of last quarterly cost estimate update of April, 2015

Project Costs Incurred through 6/30/15: Includes actuals and accruals through June 30, 2015

Primary Drivers of Forecast Adjustments:

- **Project Management:** Decrease is due to reallocation of certain cost components to Construction cost category
- **Environmental:** Additional support for erosion prevention and sediment control resulted in forecast increase
- **Construction:** Assumed costs of blasting and tree clearing are lower than anticipated
- **Overhead:** Additional AFUDC to reflect project completion date of October, 2016